

PUBLIC DISCLOSURE

September 12, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SAUGUSBANK

CERT #26574

**489 LINCOLN AVENUE
SAUGUS, MASSACHUSETTS 01906**

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NOTE:	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.
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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") and the Federal Deposit Insurance Corporation ("FDIC") to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Saugusbank, a Co-operative Bank ("Saugusbank" or the "Bank")**, prepared by the Division and the FDIC, the institution's supervisory agencies, as of **September 12, 2011**. The agencies evaluate performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and Part 345 of the FDIC's Rules and Regulations.

INSTITUTION'S CRA RATING: This institution is rated **"Satisfactory."**

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. This rating is based on the following criteria.

➤ ***Loan-to-Deposit Ratio***

The average loan-to-deposit ("LTD") ratio of 84.2 percent is reasonable given the institution's size, financial condition, business strategy, and assessment area credit needs.

➤ ***Assessment Area Concentration***

Except for home mortgage loans in 2010, less than a majority of the Bank's residential mortgage and small business loans was originated within the assessment area. Saugusbank's residential lending and small business activity within the assessment area needs to improve, as the majority of loans and other lending related activities are outside the institution's assessment area. During the evaluation period, the Bank originated 45.3 percent by number and 37.2 percent by dollar volume of residential and small business loans within its assessment area.

➤ ***Borrower Profile***

Given assessment area demographics and aggregate lending performance, the distribution of borrowers reflects an excellent penetration among individuals of varying income levels, particularly those of low- and moderate-income. The Bank demonstrated a reasonable penetration of loans to businesses of different sizes.

➤ ***Geographic Distribution***

The geographic distribution of loans reflects an overall reasonable dispersion throughout the assessment area. The Bank achieved good market ranks within both the low- and moderate-income tracts, with respect to its home mortgage lending.

➤ ***Response to Complaints***

The Bank has not received any CRA-related complaints since the previous evaluation.

SCOPE OF EVALUATION

This evaluation was conducted jointly by the Division and FDIC. The evaluation utilized Small Bank CRA procedures, as established by the Federal Financial Institutions Examination Council ("FFIEC"). A "small bank" is an institution that, as of December 31 of either of the prior two calendar years, had assets of less than \$280 million. Small Bank CRA procedures include an analysis of five performance criteria (1) loan-to-deposit ratio, (2) assessment area concentration, (3) borrower distribution, (4) geographic distribution, and (5) response to written complaints and a fair lending evaluation.

The evaluation focused on home mortgage and small business lending. The Bank's loan portfolio consists predominantly of home mortgage loans at 64.7 percent; therefore, greater emphasis was placed on the Bank's home mortgage lending performance when arriving at ratings. Home mortgage loans, as reported on the Bank's 2009 and 2010 Home Mortgage Disclosure Act ("HMDA") Loan Application Registers ("LARs"), were analyzed. Partial year data through June 30, 2011 was also evaluated for the purpose of identifying trends. LARs contain data about home purchase and home improvement loans, including refinancings, of 1-4 family and multi-family (five or more units) properties. Aggregate market data (2009) was also utilized for comparative purposes to measure Saugusbank's level of performance with respect to the Geographic Distribution and Borrower Distribution criteria.

Small business loans for the purpose of this evaluation include commercial real estate loans and commercial and industrial loans in amounts of \$1 million or less. Although the Bank was not required to collect or report small business loan data during the evaluation period, data was available to conduct the analysis in 2009, 2010, and the first six months of 2011. Since the Bank is not required to report its small business loan data, comparing the Bank's small business lending activity to aggregate small business data was not appropriate. Instead, the Bank's small business lending performance was compared to assessment area demographic information for 2009 and 2010. Small business lending data for 2011 (through June 30) is referenced in the narrative, where applicable, to illustrate trends in the Bank's performance.

Small farm loans were not analyzed during the evaluation, as the Bank did not originate any loans in this category. Consumer lending was also excluded from this analysis as this loan type accounted for only a nominal percentage of the Bank's overall lending activity.

Although both the number and dollar volume of the Bank's small business and home mortgage loans were reviewed, the number of originations was weighed more heavily than the dollar volume. This is because the number of loans is less likely to have been influenced by factors such as business size, applicant income level, or varying real estate values within the Bank's assessment area. If dollar volume were emphasized, higher income borrowers or geographic areas would generally appear to receive a larger percentage of loans as each loan is likely to be a larger dollar amount.

Demographic data referenced throughout the evaluation was obtained from the 2000 United States (U.S.) Census, unless otherwise noted.

PERFORMANCE CONTEXT

Description of Institution

Saugusbank is a state-chartered co-operative financial institution headquartered at 489 Lincoln Avenue in Saugus, Massachusetts. In addition to its main office, the Bank operates two full service locations and one loan center. A branch office is located at 1 Hamilton Street in Saugus and the loan center is located at 481 Lincoln Avenue in Saugus. In 2006, the Bank opened a full service branch at 412 Lynn Fells Parkway in Saugus. The new branch offers extended hours from 7:00 A.M. to 7:00 P.M. Monday through Friday and additional hours on Saturdays and Sundays. All of the Bank's offices are located in middle-income census tracts. Bank-owned, automated teller machines (ATMs) are located at each of the Bank's full-service offices.

As of June 30, 2011, the Bank's assets totaled approximately \$202 million, while total loans stood at \$124 million and deposits at \$164 million. The Bank's assets increased since the previous evaluation by approximately 16 percent. The Bank's previous CRA evaluation was conducted by the FDIC on July 10, 2006. The Division's last CRA evaluation was dated April 13, 2004.

The Bank's loan portfolio shifted somewhat since the previous FDIC and Division evaluations. At both evaluations, 1-4 family residential lending accounted for approximately 47 percent of the Bank's loan portfolio. Currently, 1-4 family lending accounts for a slight majority at 56.2 percent, of the portfolio. The growth of the Bank's residential lending is due to expanded product offerings.

During the evaluation period, the Bank became an active partner in the origination of mortgages with MassHousing. In addition, the Bank developed an in-house First-Time Homebuyer (FTHB) program. Saugusbank also partnered with the Federal Home Loan Bank of Boston (FHLBB) to offer assistance with downpayments to new home buyers through the Equity Builder Program. Another new product the Bank began offering is a construction-to-permanent mortgage to facilitate the acquisition of land, construction of a home, and attainment of permanent mortgage financing with one loan closing and one set of closing costs.

The Bank continues to be an active commercial lender. Commercial loans account for the next highest portion of the loan portfolio at 34.7 percent. The Bank offers Small Business Administration (SBA) loans and added new SBA loan programs during the review period. Refer to Table 1 for further information regarding the Bank's portfolio:

Table 1 - Loan Distribution as of June 30, 2011		
Loan Type	Dollar Amount (\$000s)	% of Total
Construction and Land Development	7,625	6.1
Revolving, open-end loans secured by 1-4 family	5,191	4.2
Closed-end first liens secured by 1-4 family	63,673	51.2
Closed-end second liens secured by 1-4 family	1,040	0.8
Loans secured by multifamily residential	2,997	2.4
Total Residential	80,526	64.7
Loans secured by owner occupied Commercial Real Estate	16,086	12.9
Loans secured by non owner occupied Commercial Real Estate	16,559	13.3
Commercial and Industrial	10,544	8.5
Total Commercial	43,189	34.7
Automobile Loans	70	0.1
Other Consumer Loans	597	0.5
Total Loans	124,382	100.0

Source: Report of Condition FDIC Call Report (June 30, 2011)

There appear to be no financial or legal impediments that would prevent the Bank from helping to meet the credit needs of its assessment area. However, it is noted that the Bank operates in a highly competitive environment. In 2009, 297 lenders originated home mortgage loans within the assessment area.

Description of Assessment Area

The CRA requires the designation of one or more assessment area(s) within which a financial institution's record of helping to meet the needs of its community will be evaluated. The Bank's assessment area conforms to the CRA regulation in that it consists of whole geographies (or census tracts), does not arbitrarily exclude low- or moderate-income areas, does not extend beyond state boundaries, and does not reflect illegal discrimination.

Saugusbank designated its assessment area to consist of the contiguous municipalities of Saugus, Lynn, Wakefield, and Melrose. Saugus and Lynn are located in Essex County within the Peabody, MA Metropolitan Division ("MD"). Wakefield and Melrose are part of Middlesex County, within the Cambridge-Newton-Framingham, MA MD. Table 2 illustrates select demographics of the assessment area.

Table 2 - Saugusbank Assessment Area Demographics								
Census Tract Income Level*	Census Tracts in Assessment Area		Total Population		Total Families		Total Housing Units	
	#	%	#	%	#	%	#	%
Low	4	11.1	13,993	8.4	2,967	7.1	5,391	8.2
Moderate	13	36.1	51,190	30.6	11,693	27.8	20,080	30.5
Middle	19	52.8	101,883	61.0	27,371	65.1	40,473	61.3
Total	36	100.0	167,066	100.0	42,031	100.0	65,944	100.0

Source: 2000 US Census Data

Census Tract Income Levels

As depicted in Table 2, Saugusbank's assessment area contains 36 census tracts, of which 4 are low-income, 13 are moderate-income, and 19 are middle-income geographies. There are no upper-income census tracts in the assessment area. Each census tract is assigned an income level based on the median family income (MFI) of the tract as compared to the MFI established for the MD in which the tract is located. The four income levels are defined as follows:

Low income – Less than 50 percent of MFI;

Moderate income – At least 50 percent, but less than 80 percent of MFI;

Middle income – At least 80 percent, but less than 120 percent of MFI;

Upper income – 120 percent or greater of MFI.

Under the Lending Test, the Geographic Distribution criterion is evaluated pursuant to the census tract designations resulting from the 2000 Census.

Population

The analyses under the Borrower Profile and Geographic Distribution sections utilize aspects of U.S. Census data that pertain to assessment area *families* and *households*, respectively. According to the 2000 U.S. Census data, the total population of the assessment area is 167,066. This figure is comprised of 42,031 families, of which 23.9 percent are low-income; 20.5 percent

are moderate-income; 24.1 percent are middle-income; and 31.5 percent are upper-income. These numbers show the relatively comparable stratification, by income-level, of families throughout the assessment area. It should be noted, however, that more than 30 percent of all low-income families are below the poverty level and would not likely qualify as home loan applicants.

Providing further insight into the demographic composition of the assessment area is the number of families within each income-level of census tract. Of the 42,031 families in the assessment area, only 7.1 percent reside in low-income census tracts, whereas 27.8 percent reside in moderate-income census tracts, and 65.1 percent reside in middle-income census tracts.

The assessment area also has 64,181 households, of which 29.7 percent are low-income, 17.1 percent are moderate-income; 18.7 percent are middle-income; and 34.5 percent are upper-income. A total of 8.0 percent of assessment area households are in low-income tracts; 30.4 percent are in moderate-income tracts; and 61.6 percent are in middle-income tracts.

Housing

Based on 2000 Census data, the assessment area contains 65,944 housing units, of which 57.5 percent are owner-occupied, while a significant portion (40.3 percent) is occupied rental units. Only 17.2 percent of total housing units in the assessment area's low-income census tracts are owner-occupied, and 78.9 percent are rental units. Compared to the low-income census tracts, the area's moderate-income geographies have a higher owner-occupancy ratio of 36.7 percent and a lower percentage of rental units (59.8 percent).

Home prices within the assessment area increased moderately between the 1990 and 2000 Census periods. During this time, the median housing value increased from \$170,779 to \$201,696 representing a total increase of 18.1 percent. More recent data obtained from The Warren Group show that median sales price for calendar year 2010 was \$290,000 within Saugus, and \$181,163 within Lynn. Melrose and Wakefield were added to the assessment area recently and these municipalities report median sales prices of \$371,875 and \$362,000, respectively. Additional data show that the median home sales prices within all four municipalities continued to decrease during the first six months of 2011, with the largest decrease noted in the Town of Saugus.

Employment

Census data for 2000 show an unemployment rate of 4.5 percent within the assessment area. More recent data (June 2011) obtained from the FDIC's Division of Information and Research show an unemployment rate of 7.3 in Saugus and a significantly higher rate of unemployment of 9.0 percent in Lynn. Wakefield and Melrose are in the 5 percent range. As of the same date, Essex County was at 7.9 percent and Middlesex County at 7.0 percent. Also, as of June 2011, the national unemployment rate was 8.9 percent, and the Massachusetts unemployment rate was 7.5 percent.

Median Family Income Levels

The Borrower Profile criterion is based on the distribution of home mortgage loans to individuals of different income levels, focusing on loans to low- and moderate-income borrowers. Income levels are broken down into the same four categories as previously noted (low-, moderate-, middle-, and upper-income). However, the analysis is based on MFI levels for each applicable MD, which are initially based on 2000 U.S. Census data and adjusted for inflation and other economic events by the Department of Housing and Urban Development (HUD). The 2010 MFI information for the MD's in which the Bank designated its assessment area is illustrated in Table 3.

Table 3 – Median Family Income Data	
MD	2010 HUD-adjusted Median Family Income
Cambridge-Newton-Framingham	\$98,700
Peabody	\$83,900

Source: HUD and 2000 U.S. Census Data

In light of the population, income, and housing information presented above, it is apparent that the opportunity for lending to low-income borrowers, and in low-income geographies is somewhat limited within the assessment area. Two factors are particularly representative of these limited credit needs. First, a low-income individual, earning less than 50 percent of the median MFI in the Cambridge-Newton-Framingham MD (or \$49,350) would not likely qualify for a mortgage to purchase a property valued between \$170,779 and \$201,696. Likewise, a low-income individual earning less than \$41,950 (50 percent of the Peabody MD MFI) would not likely qualify for a mortgage on a property with a median home sales price ranging from \$362,000 to \$371,875. Secondly, the low owner-occupancy ratio of 17.2 percent in low-income geographies, combined with the substantial percentage of occupied rental units (78.9 percent) suggests a limited opportunity for extending home mortgage loans within those census tracts. When compared to the assessment area's low-income geographies and individuals, there is a higher level of opportunity for extending home mortgages within the area's moderate-income geographies and to moderate-income borrowers. This is supported by the fact that the owner-occupancy ratio in moderate-income areas is 36.7 percent, and that moderate-income borrowers with an income of at least 50 percent, but less than 80 percent of the MFIs in the assessment area could qualify for home financing more easily.

Community Contact

A community contact performed during the examination revealed that one of the most prevalent needs of the assessment area is a long-term commitment to the provision of affordable housing within the area, especially for seniors and young disabled individuals.

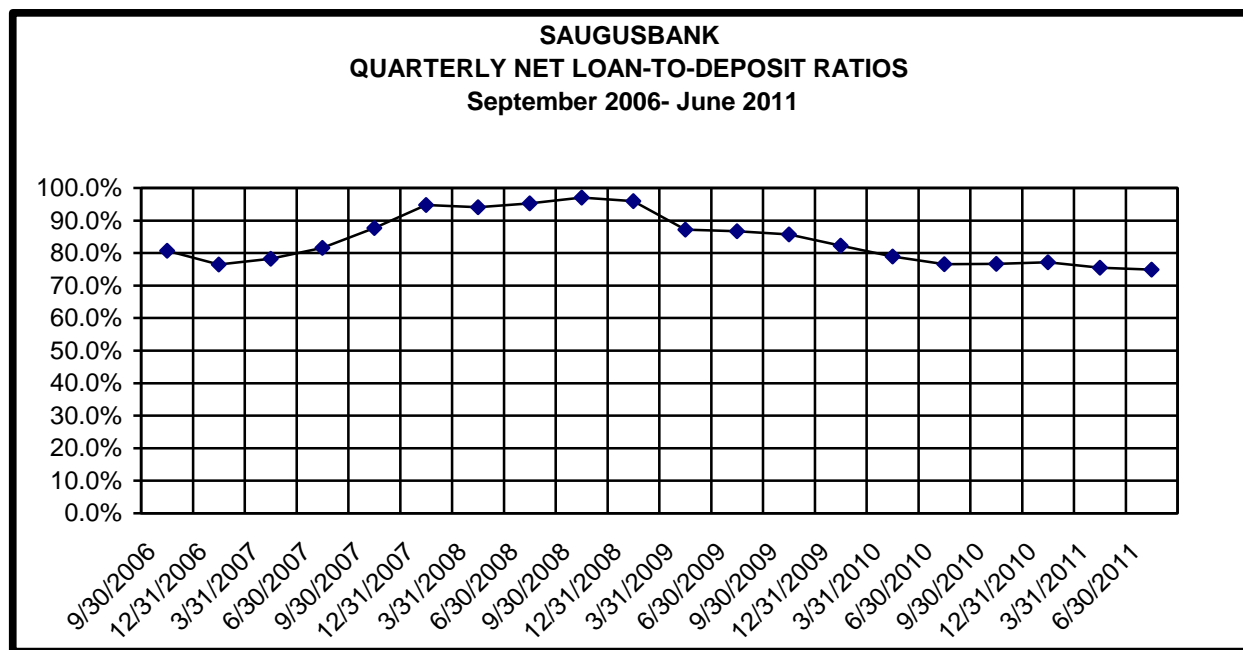
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This evaluation assesses the institution's record of helping to meet the credit needs of its assessment area by considering the institution's home mortgage and small business lending activity. Of the five criteria considered under this analysis, performance under the borrower profile and geographic distribution criteria are assigned the most weight in arriving at an overall rating.

Loan-to-Deposit (LTD) Analysis

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans, and evaluates its appropriateness. The LTD ratio is reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.

The average LTD ratio since the previous evaluation, dated July 10, 2006, was calculated at 84.2 percent, this number represents the average ratio over the last 20 quarters under evaluation. The Bank's LTD ratio as of June 30, 2011 was calculated at 74.9 percent, which was also the lowest quarter during the review period. The highest LTD ratio was calculated at 97.0 percent as of September 30, 2008. Overall, the LTD decreased during the 20 quarters, reflecting the Bank's deposit growth of \$29 million, or 22.9 percent, outpacing the growth in net loans of approximately \$14 million, or 13.0 percent. The increase in the Bank's deposit growth can be partially attributed to the new branch opened in 2006, which increased the visibility of the Bank and attracted new deposit customers. In addition, Saugusbank greatly expanded use of Freddie Mac as an investor for selling fixed-rate mortgages, resulting in a decline of loans held in portfolio. The following graph reflects the Bank's net LTD during each quarter under review.



As displayed in the graph, the Bank's LTD ratio increased from 2006 to 2008; during this time loan growth remained close to the Bank's growth in deposits. The decrease in the following years is proportional to the increased volume of sold loans. In 2008, the Bank sold 39 loans, totaling approximately \$7 million, whereas the following year (2009) the Bank sold 167 loans, totaling approximately \$35 million. During 2010, the Bank sold 159 loans totaling over \$34 million. The Bank continued to sell loans during 2011, selling 31 loans (\$6 million) during the first six months.

For comparison purposes the Bank's net LTD ratio (in Table 4) was compared with four similarly-situated institutions. Each ratio represents the average over the past 20 quarters from September of 2006 through June of 2011. Comparatively speaking, Saugusbank's average LTD ratio is reasonable.

Table 4 - Net Loan-to-Deposit Ratio Comparison		
<i>Institution</i>	<i>Net LTD Ratio (%)</i>	<i>Asset Size \$(000's)</i>
Bank Gloucester	99.6	171,832
The Rockport National Bank	84.9	173,947
Saugusbank, a Co-operative Bank	84.2	201,662
The National Grand Bank	82.8	249,135
Washington Savings Bank	78.4	173,603

Source: Bank Call Reports

Assessment Area Concentration

This performance criterion measures the percentage of the Bank's lending that benefits assessment area residents and evaluates the adequacy of such lending. Saugusbank's residential and small business lending activity within the assessment area needs to improve, as the majority of loans and other lending-related activities are outside the institution's assessment area. Management is aware of this and stated that additional outreach efforts should improve performance. Management also cited the Bank's lack of a branch presence in Lynn, and the high level of competition in the Lynn market.

Table 5 reflects the institution's lending record for residential home mortgage and small business loans inside and outside the assessment area.

Table 5 – Distribution of HMDA Loans Inside and Outside the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA										
2009 HMDA										
Purchase	24	44.4	30	5.6	54	5,002	38.7	7,925	61.3	12,927
Home Improvement	10	52.6	9	47.4	19	1,925	48.4	2,054	51.6	3,979
Refinance	55	45.1	67	54.9	122	10,308	37.2	17,371	62.8	27,679
2009 Subtotal	89	45.6	106	54.4	195	17,235	38.7	27,350	61.3	44,585
2010 HMDA										
Purchase	29	54.7	24	45.3	53	6,002	47.2	6,718	52.8	12,720
Home Improvement	12	52.2	11	47.8	23	1,672	41.9	2,318	58.1	3,990
Refinance	59	52.2	54	47.8	113	11,336	46.8	12,874	53.2	24,210
2010 Subtotal	100	52.9	89	47.1	189	19,010	46.5	21,910	53.5	40,920
YTD 2011 HMDA										
Purchase	7	35.0	13	65.0	20	1,301	20.9	4,912	79.1	6,213
Home Improvement	4	44.4	5	55.6	9	447	28.9	1,102	71.1	1,549
Refinance	7	33.3	14	66.7	21	1,528	29.8	3,559	70.2	5,087
2011 Subtotal	18	36.0	32	64.0	50	3,276	25.5	9,573	74.56	12,849
HMDA Subtotal	207	47.7	227	52.3	434	39,521	40.2	58,833	59.8	98,354
Small Business										
2009 Subtotal	10	40.0	15	60.0	25	2,884	37.4	4,837	62.6	7,721
2010 Subtotal	6	24.0	19	76.0	25	667	10.8	5,534	89.2	6,201
2011 Subtotal YTD	4	23.5	13	76.5	17	570	11.2	4,521	88.8	5,091
Small Business Subtotal	20	29.9	47	70.1	67	4,121	21.7	14,892	78.3	19,013
Total	227	45.3	274	54.7	501	43,642	37.2	73,725	62.8	117,367

Source: HMDA LAR Data (2009, 2010 and YTD 2011 June 30, 2011); Bank Records

Home Mortgage Lending

As depicted in Table 5, during the evaluation period, Saugusbank originated 47.7 percent, by number, and 40.2 percent by dollar volume of residential mortgage loans within its assessment area. In 2009, only 45.6 percent of the Bank's loans were originated within the assessment area. However, according to market share reports for that year, of the 297 lenders who originated a home mortgage loan in the assessment area, the Bank was ranked 18th. Only one much larger community bank ranked higher than Saugusbank. The higher ranking institutions were generally large, regional or national banks and mortgage companies. Considering the smaller asset size of the Bank and strong competition in the area, the Bank's market share at 1.49 percent is good. The Bank's lending within the assessment area increased in 2010, whereby 100 loans or 52.9 percent, by number, were originated within the assessment area. This was the only year that the Bank originated a majority of its home mortgage loans in the assessment area. The Bank's performance in 2011 indicates a decreasing trend in lending within the assessment area. Only 36.0 percent, by number, and 25.5 percent by dollar volume of loans were originated within the assessment area during the first 6 months of 2011. When analyzed by dollar volume, a lower percentage of the Bank's activity was within the assessment area suggesting that, on the average, loans made inside were in smaller dollar amounts.

When analyzing the data by product type, the Bank originated 44.4 percent by number of home purchases within its assessment area by number in 2009. Residential refinancing and home improvement mortgage loans originated within the Bank's assessment area by number are 45.1 percent and 52.6 percent, respectively.

As illustrated in Table 5, in 2010, 54.7 of home purchase loans were inside its assessment area, while 52.2 percent of refinance and home improvement loans were made within the assessment area. In 2011, 35.0 percent of home purchase loans, 44.4 percent of home improvement loans, and 33.3 percent of refinance loans, by number, were made within the assessment area.

There were no substantial differences when analyzing data by product type or dollar volume. Overall, a slight majority of HMDA reportable loans were originated outside of the Bank's assessment area, therefore the Bank's performance under this criterion needs to improve.

Small Business Lending

The Bank's internal small business loan origination data was also analyzed to determine the extent of small business lending within the assessment area.

As shown in the Table 5, the Bank made 10, or 40.0 percent, of total small business loans inside the assessment area during 2009, 24.0 percent in 2010, and 23.5 percent the first six months of 2011. Management attributed the percentage decline to competition within the assessment area. By dollar amount, \$2.9 million, or 37.4 percent, were inside the assessment area during 2009, \$667,000, or 10.8 percent, in 2010, and \$570,000, or 11.2 percent, during the first half of 2011. The percentage by dollar amount decreased considerably from 2009 to 2010. Less than a majority of loans both by number and dollar amount was inside the assessment area in both full years, with a similar trend indicated for the first six months of 2011, indicating a performance that needs to improve under this criterion.

Borrower Profile

The distribution of loans predicated on borrower income and business size was reviewed to determine the extent to which the Bank is addressing the credit needs of its assessment area. The Bank's performance, relative to the distribution of borrowers, reflects an overall excellent penetration of home mortgage products to low- and moderate-income individuals, and a reasonable penetration among businesses of different sizes.

Home Mortgage Lending

Table 6 details, by number, the distribution of HMDA-reportable, residential mortgage loans by borrower income level for the evaluation period. Only loans extended within the assessment area are included in the table. For comparison purposes, the percentage of total families from the 2000 U.S. Census data, and aggregate lending data from 2009 is also shown.

Table 6 - Distribution of HMDA Loans by Borrower Income								
Borrower Income Level	% of Families Total	2009 Aggregate Data	2009 Bank Data		2010 Bank Data		YTD 2011 Bank Data	
		% of #	#	% of #	#	% of #	#	% of #
Low	23.8	6.7	9	10.1	11	11.0	4	22.2
Moderate	20.5	22.8	24	27.0	29	29.0	4	22.2
Middle	24.2	27.5	29	32.6	29	29.0	7	38.9
Upper	31.5	25.7	27	30.3	30	30.0	2	11.1
NA	---	17.3	---	---	1	1.0	1	5.6
Total	100.0	100.0	89	100.0	100	100.0	18	100.0

Source: 2000 U.S. Census, HMDA LARs (2009, 2010, and YTD June 30, 2011), and 2009 Aggregate Data

As displayed in Table 6, the Bank achieved a higher percentage of loans granted to low-income borrowers than the 2009 aggregate. According to market share reports, Saugusbank achieved a market rank of 11th in lending to low-income borrowers in 2009. The Bank's performance increased in 2010 whereby 11 loans, or 11.0 percent, were made to low-income borrowers. The partial year data for 2011 indicates the Bank's percentage of lending to low-income borrowers continued to improve, at 22.2 percent during the first 6 months.

The Bank's performance lagged demographic indicators; however, it is not expected that the Bank would match the percentage of low-income families. As previously mentioned 7.7 percent of families have incomes below the poverty level and would therefore not likely qualify for home mortgage loans.

The Bank also outperformed the 2009 aggregate in lending to moderate-income borrowers. The Bank made 27.0 percent of loans to moderate-income borrowers in that year, compared to aggregate's 22.8 percent. In addition, of the 297 lenders, the Bank ranked 16th in lending to moderate-income borrowers. Saugusbank made 29 loans (29 percent) to moderate-income borrowers in 2010. The Bank's performance remained strong in 2011 with 22.2 percent of loans granted to moderate-income borrowers.

The Bank's percentage exceeded the percentage of moderate-income families in the assessment area in each year under review, further demonstrating Saugusbank's commitment to meeting the credit needs of the assessment area.

Considering the Bank's market ranks, the demographics of the assessment area and the increasing trend, Saugusbank's penetration among individuals of varying income levels, particularly those of low- and moderate-income borrowers is excellent.

There were no anomalies noted when analyzing data by product type or dollar volume.

Small Business Lending

Table 7 illustrates the number and dollar volume of the Bank's small business loans and the percentage of total businesses in the assessment area, by level of gross annual revenues (GARs).

Table 7 – Distribution of Small Business Loans by Gross Annual Revenues of Business									
Gross Annual Revenues (000s)	% of Total Businesses	Bank 2009				Bank 2010			
		#		\$ (000s)		#		\$ (000s)	
	%	#	%	\$	%	#	%	\$	%
≤ \$1,000	78.0	9	90.0	2,584	89.6	5	83.3	652	97.8
> \$1,000 or N/A	22.0	1	10.0	300	10.4	1	16.7	15	2.2
Total	100.0	10	100.0	2,884	100.0	6	100.0	667	100.0

Source: 2009 and 2010 Institution Records, 2010 Business Demographic Data

In 2009, the Bank extended 9, or 90.0 percent, of its small business loans inside the assessment area to businesses with GARs of \$1 million or less. This performance exceeds the percentage of total businesses within the assessment area with GARs of \$1 million or less (78.0 percent). Similarly, in 2010, the Bank extended 5, or 83.3 percent, of its small business loans inside the assessment area to businesses with GARs of \$1 million or less. Although based on relatively few loans, the Bank's performance in lending to small businesses has a positive impact on the rating for this criterion and is considered reasonable.

The small business loans originated within the Bank's assessment area were further analyzed to determine the typical loan amount at origination. This analysis is based on the supposition that loans of smaller amounts are most likely made to very small businesses. Thus, it is viewed favorably when banks have high percentages of loans made in amounts of less than \$100,000. Table 8 illustrates the Bank's small businesses loans by loan amount.

Table 8 – Distribution of Small Business Loans by Loan Size								
Loan Amount (000s)	Bank 2009				Bank 2010			
	#	%	\$	%	#	%	\$	%
< \$100	2	20.0	134	4.6	4	66.7	217	32.5
≥\$100 < \$250	3	30.0	564	19.6	2	33.3	450	67.5
≥\$250 ≤ \$1,000	5	50.0	2,186	75.8	0	0.0	0	0.0
Total	10	100.0	2,884	100.0	6	100.0	667	100.0

Source: 2009 and 2010 Institution Records

Table 8 shows that 20.0 percent and 66.7 percent by number of the institution's small business loans extended inside the assessment area in 2009 and 2010, respectively, were for amounts less than \$100,000. Again, the Bank's performance under this criterion is based on relatively few loans originated in the assessment area. Therefore, the Bank's record of extending small loans to businesses reflects reasonable performance in meeting the credit needs of the area's smallest businesses, since 50 percent of the Bank's loans in the assessment area in 2009 were for less than \$250,000 and 100 percent were less than \$250,000 in 2010.

Geographic Distribution

The geographic distribution of loans was reviewed to assess the Bank's performance in addressing credit needs throughout its assessment area. The primary focus of this analysis is to assess the Bank's loan distribution in its assessment area, with emphasis placed on lending in the low- and moderate-income census tract located in the Bank's assessment area. Overall, the Bank's geographic distribution of loans reflects a reasonable dispersion throughout the delineated assessment area, when considering the overall performance context.

Home Mortgage Lending

Overall, the Bank's geographic distribution of home mortgage loans reflects a reasonable dispersion throughout the delineated assessment area

Table 9 details the distribution, by number, of HMDA-reportable, residential mortgage loans by income level of the geographies in the assessment area. The percentage of owner-occupied housing units is provided to reflect the level of lending opportunities available. Only loans extended during the evaluation period within the assessment area are included in the analysis.

Table 9- Geographic Distribution of HMDA Loans								
Census Tract Income Level	% of Total Owner- Occupied Housing Units	2009 Aggregate Data	2009 Bank Data		2010 Bank Data		YTD 2011 Bank Data	
		% of #	#	% of #	#	% of #	#	% of #
Low	2.5	2.3	1	1.2	2	2.0	1	5.5
Moderate	19.6	15.8	9	10.1	4	4.0	3	16.7
Middle	77.9	81.9	79	88.7	94	94.0	14	77.8
Total	100.0	100.0	89	100.0	100	100.0	18	100.0

Source: 2000 U.S. Census, HMDA LARs (2009, 2010, and YTD June 30, 2011), and 2009 Aggregate Data

As displayed in Table 9, the Bank made fewer loans in low-income census tracts (by percentage) in 2009 than aggregate lenders. The low percentage (2.5 percent) of owner-occupied units in those tracts indicates that there are fewer opportunities to lend. The Bank's penetration improved slightly in 2010 by making 2 loans in low-income tracts. The partial year data points to an increase, by percentage; however, the Bank was still only able to make one loan in a low-income tract. However, since there are only 4 low-income tracts in the assessment area, the opportunities for the Bank to lend in these geographies are limited. According to market share reports, the one loan in 2009 earned the Bank a rank of 9th out of 50 lenders that originated at least one residential mortgage loan in the four low-income tracts. The limited number of lenders sheds further light on the limited lending opportunities.

Saugusbank made 9 loans, or 10.1 percent, in moderate-income tracts in 2009. The Bank's percentage was below the percentage of owner-occupied housing units in those tracts as well as the 2009 aggregate's percentage. The Bank's percentage of lending in moderate-income tracts decreased in 2010, while 2011 data indicates an increase by percentage. According to 2009 market share reports, the Bank ranked 18th in lending in the assessment area's moderate-income census tracts.

All of the Bank's low-income census tracts are located in Lynn. In 2009, the Bank was able to penetrate one of the four income census tracts. In 2010, the Bank made loans in 2 of the four tracts. The Bank's moderate-income census tracts are also located in the City of Lynn. Of the 13 moderate-income census tracts in Lynn, the Bank made loans in 8 in 2009, 3 in 2010 and 2 in 2011. Within the 19 middle-income census tracts, the Bank made loans in 16 in 2009, 18 in 2010 and 7 in 2011. While the Bank's penetration in low- and moderate-income tracts is not as strong as lending in middle-income tracts, it is considered reasonable, particularly in light of the fact that all of the Bank's branches are located in Saugus and in middle-income tracts.

Given the Bank's market ranks and considering the overall performance context, the Bank's performance is reasonable.

Small Business Lending

Table 10 illustrates the Bank's small business lending activity in 2009 and 2010 by income level of census tract, as well as the percentages of businesses by census tract income level.

Table 10 – Distribution of Small Business Loans by Income Category of the Census Tract									
Census Tract Income Level	% of Businesses	Bank 2009				Bank 2010			
		# of Loans		Loan Amt \$(000)		# of Loans		Loan Amt \$(000)	
		#	%	\$	%	#	%	\$	%
Low	10.3	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	19.0	1	10.0	40	1.4	6	100.0	667	100.0
Middle	70.7	9	90.0	2,844	98.6	0	0.0	0	0.0
Total	100.0	10	100.0	2,884	100.0	6	100.0	667	100.0

Source: 2009 and 2010 Institution Records, 2010 Business Geodemographic Data

In 2009 and 2010, the Bank did not originate any small business loans in any of its four low-income census tracts, which represent 10.3 percent of its assessment area. The Bank's lending within the moderate-income census tracts, by number, in 2009 (10.0 percent) is less than the percentage of businesses in the moderate-income census tracts (19.0 percent). The Bank's percentage increased to 100.0 percent in 2010, but the shift in the percentage is reflective of only a few more loans in these tracts. Based on the relatively low number of small business loans originated in the assessment area in each year, the Bank's overall rating is not significantly impacted by this performance.

Response to Complaints

The Bank did not receive any CRA-related complaints since the previous FDIC CRA evaluation. However, the institution has an appropriate action plan should a complaint be received.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations. The institution applies its credit standards uniformly and has not engaged in any discriminatory lending practices.

APPENDIX A
Fair Lending Policies and Procedures

Fair Lending Policies and Practices – Massachusetts Division of Banks

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 2.3-101.

A review of the Bank's public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination.

The Bank has a detailed Equal Credit Opportunity Act (ECOA) policy which addresses fair lending and fair housing. The Bank provides annual fair lending training to all employees and the Board on an annual basis. The Bank also has a second review process by which all applications slated for denial applications are reviewed to ensure all lending policies and procedures are being adhered to.

MINORITY APPLICATION FLOW

A review of residential loan applications was conducted in order to determine the number of HMDA-reportable credit applications table the Bank received from minority applicants. The Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area and the 2009 aggregate data for all other HMDA reporters within the assessment area. The comparison of these data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. The Bank's performance was found to be reasonable.

According to the 2000 Census data, 22.0 percent of the assessment area's population is minority. The composition is as follows: 5.2 percent Black, 4.2 percent Asian, 0.1 percent American Indian/Alaskan, 10.2 percent Hispanic, and 2.3 percent reported race as "Other."

MINORITY APPLICATION FLOW								
RACE	Bank 2009		2009 Aggregate Data		Bank 2010		Bank TOTAL	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	22	0.2	0	0.0	0	0.0
<i>Asian</i>	15	12.0	439	3.6	10	8.5	25	10.3
<i>Black/ African American</i>	2	1.6	303	2.5	0	0.0	2	0.8
<i>Hawaiian/Pac Isl.</i>	0	0.0	14	0.1	0	0.0	0	0.0
<i>2 or more Minority</i>	0	0.0	6	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	0	0.0	125	1.0	0	0.0	0	0.4
Total Minority	17	13.6	909	7.5	10	8.5	27	11.1
<i>White</i>	106	84.8	8,349	68.5	105	89.0	211	86.8
<i>Race Not Available</i>	2	1.6	2,933	24.0	3	2.5	5	2.1
Total	125	100.0	12,191	100.0	118	100.0	243	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	2	1.6	584	4.8	1	0.9	3	1.2
<i>Not Hispanic or Latino</i>	121	96.8	8,523	69.9	112	94.9	233	95.9
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	0	0.0	100	0.8	1	0.9	1	0.4
<i>Ethnicity Not Available</i>	2	1.6	2,984	24.5	4	3.3	6	2.5
Total	125	100.0	12,191	100.0	118	100.0	243	100.0

Source: US Census, HMDA LAR, HMDA Aggregate Data

As displayed in the table above, in both years the Bank received a higher percentage of applications from racial minority applicants than that received by the 2009 aggregate. The percentage of applications from Hispanic borrowers lagged the aggregate.

Of the 17 loan applications in 2009, 13 or 76.5 percent resulted in originations, 2 were approved not accepted, 1 was withdrawn and 2 or 11.8 percent were denied. According to the aggregate data, of the 909 applications 461 or 50.7 percent were originated and 203 or 22.3 percent were denied. In 2010, 5 or 50 percent of applications received from minorities within the assessment area were originated, 1 or 10.0 percent was denied.

APPENDIX B DEFINITIONS

GEOGRAPHY TERMS

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one has incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by non-farm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 489 Lincoln Avenue, Saugus, Massachusetts 01906."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.